COMMERCIAL BANK

March 28, 2025

Mr. Renuke Wijayawardhane
Chief Regulatory Officer
Colombo Stock Exchange
04-01 West Block
World Trade Centre,
Echelon Square
Colombo 01

Dear Sir,

COMMERCIAL BANK OF CEYLON PLC (THE BANK)
CIRCULAR TO SHAREHOLDERS PERTAINING TO THE PROPOSED ISSUE OF BASEL III-COMPLIANT GREEN BONDS

We wish to clarify that the figure cited as the Bank's Average Monthly Rupee Disbursements for the Green Lending Portfolio, for the three months ended December 31, 2024, stated in the Circular to Shareholders pertaining to the proposed issue of BASEL III-compliant Green Bonds set out in the third column of page 537 of the Annual Report 2024, should be read as Rs. 4.19 Bn instead of Rs. 28.62 Bn.

The error is regretted.

Yours faithfully,

K D N Buddhipala
Chief Financial Officer

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Circular to Shareholders Pertaining to the Proposed Issue of BASEL III Compliant Green Bonds

THIS DOCUMENT IS OF VALUE – If you are in any doubt as to the action you should take, you should consult your stockbroker or other professional adviser immediately.

Dear Shareholder/s,

The Commercial Bank of Ceylon PLC (the "Bank") made a profit of Rs. 54, 074 Mn. (Group Rs. 55,686 Mn., as per the Audited financial statements) for the year ended December 31, 2024. Total shareholders' funds improved to Rs. 275,262 Mn. (Group Rs. 285,819 Mn., as per the Audited Financial Statements) as of December 31, 2024 from Rs. 214,931 Mn. (Group Rs. 224,974 Mn., as per the audited financial statements) as of December 31, 2023. Figures shown herein are extracted from published Financial Statements.

The Board of Directors of the Bank, having identified the need to strengthen the Tier 2 Capital of the Bank as per Basel III requirements and in order to facilitate expansion of the Green Lending Portfolio, pursuant to a resolution, adopted on January 30, 2025, decided to initiate, and also to recommend to shareholders,

AN ISSUE OF BASEL III COMPLIANT – TIER 2 LISTED RATED UNSECURED SUBORDINATED REDEEMABLE 5 YEAR, 7 YEAR AND 10 YEAR GREEN BONDS WITH A NON-VIABILITY CONVERSION TO ORDINARY VOTING SHARES TO BE ISSUED BY THE BANK, SOLELY IF INSTRUCTED TO DO SO BY THE GOVERNING BOARD OF THE CENTRAL BANK OF SRI LANKA ON OCCURRENCE OF A TRIGGER EVENT.

The proposed issue is to raise a sum of Rupees Ten Billion (Rs. 10,000,000,000/-) through the issuance of up to One Hundred Million (100,000,000) Basel III Compliant - Tier 2 Listed Rated Unsecured Subordinated Redeemable Green Bonds with a Non-Viability Conversion feature, each with a par value of Rs. 100/-, with an option to raise up to a further Rupees Five Billion (Rs. 5,000,000,000/-) through the issuance of up to a further Fifty Million (50,000,000) Green Bonds, each with a par value of Rs. 100/- in the event of an over-subscription of the initial issue (hereinafter collectively called the "Green Bonds" or "Bond Issue"). Based on the asset value referred to in Section 6 hereof, the proposed issue does not constitute a major transaction for the Bank as defined in Section 185 of the Companies Act No. 07 of 2007 (as amended).

The proposed Green Bonds will be redeemed after 5 years, 7 years and 10 years from the date of allotment of such Bonds and the principal sum and accrued interest (if any) payable on the redemption of such Green Bonds will be paid not later than three (03) market days from the date of redemption, unless a Trigger Event occurs as described in this circular.

The proposed issue of Green Bonds is subject to the approval of the Colombo Stock Exchange and the Central Bank of Sri Lanka and are to be issued under rules and regulations promulgated by the Colombo Stock Exchange and the Central Bank of Sri Lanka, including guidelines issued in relation to Basel III compliance in the Banking Act Directions No. 1 of 2016 issued by the Central Bank of Sri Lanka as may be amended from time to time.

The Bank is in the process of obtaining an expected Rating from Fitch Ratings Lanka Limited for the proposed Bond Issue. The final rating for the proposed Bond Issue with a convertibility feature in compliance with Basel III requirements will be issued by Fitch Ratings Lanka Limited. Issuance of this rating will be subject to the adoption of a Special Resolution by the Shareholders of the Bank, at the Extraordinary General Meeting (EGM) that is being convened, and receipt of approval of the Central Bank of Sri Lanka (CBSL). The final Rating Report will be incorporated in the Green Bond Prospectus.

1. OBJECTIVES OF THE PROPOSED BOND ISSUE

The Bank expects to use the funds raised through the Green Bonds to strengthen Tier 2 capital of the Bank and to expand the Green Lending portfolio of the Bank by extending new green lending facilities and refinancing of eligible green projects with a look-back period of no longer than three years from the date of allotment of the Green Bonds. Out of the proceeds from the Green Bond Issue, the Bank will allocate up to a maximum of 50% of the funds for refinancing of eligible green projects.

Funds raised through this Bond Issue are expected to improve the Capital Adequacy of the Bank. The medium to long term duration of the Bonds and the subordinated nature of the instrument issued in compliance with Basel III requirements will enable the Bank to strengthen the Tier 2 Capital Base as per Basel III requirements. Approval will be obtained from the Central Bank of Sri Lanka to include the Basel III compliant Green Bonds under Tier 2 capital.

Since the Green Bonds proposed to be issued are of a medium to long term nature, being of tenures of 5, 7 and 10 years, the raising of funds through Green Bonds can be expected to reduce the mismatch between medium to long term Green Loans which are funded by short-term liabilities.

The Bank intends to use the proceeds of the Bond Issue exclusively for financing or re-financing green projects as defined in the Sustainable Bond Framework of the Bank [which is in line with the Principles issued by the International Capital Markets Association with regard to Green and Blue Bonds (ICMA)], and thereby expand the Bank's Green Lending portfolio in the ordinary course of business over a period of twelve (12) months. Considering the Bank's current Green Lending activities, there are sufficient projects which qualify as green projects as defined in the Sustainable Bond Framework of the Bank. The Bank's average monthly rupee disbursements of the Green Lending Portfolio for the three months ended December 31, 2024 stood at Rs. 4.19 Bn. Therefore, it is unlikely that the Bank would not be able to lend the Bond proceeds within a period of twelve (12) months.

The Bank as at date of this circular has not recognised related parties for the lending of the Bond proceeds and therefore plans to disburse the Bond proceeds in the ordinary course of business. However, in the event the Bank lends funds raised through this Bond Issue to related parties, the Bank will comply with the requirements stipulated under Section 9 of the Colombo Stock Exchange (CSE) Listing Rules (as applicable). Further, in the event these Bonds are allotted to related parties, the Bank shall comply with all applicable laws/ regulations in this regard.